

Building the Future for Canadians

Budget 1997

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Budget in Brief

The Honourable Paul Martin, P.C., M.P.
Minister of Finance

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Canada



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Department of Finance Canada Ministère des Finances Canada

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“What government does with scarce resources shows what its values are. This government has set its priorities. And with this budget we are investing in them. While continuing to bring the deficit down, we are providing substantial new resources to invest in jobs, in health care, in education, in our children. This is a reflection of our values ...

The era of cuts is ending. The finances of the nation are finally being brought under control. We are at the point where we are now able to forge a new destiny for ourselves.”

The Honourable Paul Martin, P.C., M.P.
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Building the Future for Canadians

This is the government's fourth budget. Like the first three budgets, it follows a plan to build the future for Canadians through a stronger economy and a stronger society. This plan for jobs and growth has four parts:

Staying the course on restoring Canada's fiscal health by:

- meeting or exceeding deficit targets;
- imposing no new taxes and no new program spending cuts; and
- addressing key economic and social priorities through selective tax cuts.

Investing in immediate jobs and growth by:

- creating conditions favourable for private sector job creation; and
- investing for immediate jobs and growth – in infrastructure, trade, youth employment, labour market training, payroll tax reduction, tourism, rural Canada and small business.

Investing in long-term job creation and growth by:

- investing in higher education and skills development; and
- investing in technological innovation through the proposed Canada Foundation for Innovation.

Investing in a stronger society by:

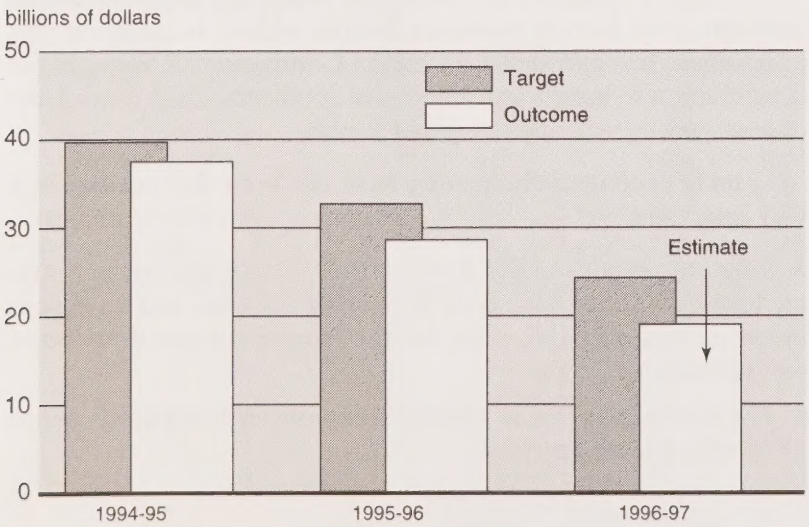
- improving health care delivery and support for children's health programs;
- providing more help for children in low-income families by establishing the basis for a National Child Benefit System;
- introducing new and better support for the disabled; and
- increasing support for charitable giving.

Staying the Course on Restoring Canada's Fiscal Health

"This budget will show that our effort to restore health to the nation's finances is very clearly on track, that we are well ahead of our target, and that we are staying the course on deficit reduction."

For the third consecutive year, the government has bettered its deficit targets. The 1996-97 deficit will be no higher than \$19 billion – substantially bettering the government's commitment to reduce the deficit to \$24.3 billion or 3 per cent of gross domestic

Deficit targets and outcomes



product (GDP). This is more than \$5 billion lower than the target and \$9.6 billion below the 1995-96 deficit. This is the largest year-over-year decline ever. The government is clearly on track to meet its deficit targets of \$17 billion or 2 per cent of GDP for 1997-98 and \$9 billion or 1 per cent of GDP for 1998-99.

There are no tax increases in the budget

This budget contains no new cuts to government programs. Program spending will be \$16.5 billion lower in 1998-99 than in 1993-94 – a reduction of 13.8 per cent in five years. By 1998-99, government spending on everything but the debt will have been reduced from \$120 billion in 1993-94 to \$103.5 billion.

In 1998-99, for the first time in 28 years, **no new borrowing from financial markets will be required to pay for government programs or interest on the debt.** Many industrialized countries use new borrowing requirements as the measure of their deficits. By this measure, **Canada is expected to have a small surplus, the best financial position of the seven largest industrialized countries by 1998-99.**

The burden of a government's debt is best measured by the size of that debt in relation to the size of the economy. The economy will soon be growing faster than the government's debt. As a result, the debt will become more manageable and the **debt-to-GDP ratio will be on a permanent downward track** – a goal that is now within reach for the first time in 20 years.

The fiscal projections are based on a **consensus of private sector forecasts with further prudence factors added.** In addition, the government has included a \$3 billion **Contingency Reserve** in the deficit targets to handle unforeseen developments. If not needed, the reserve goes to reducing the deficit further.

Canada's economic indicators have not been this positive in a very long time.

- Inflation remains under firm control. Short-term interest rates are lower than they have been in close to 35 years, and have been below comparable U.S. rates for the longest sustained period in two decades.
- The merchandise trade balance – exports over imports – ended 1996 with a record surplus.

■ Housing resales have reached record levels and the sale of consumer goods is up substantially. Business confidence has never been better. In fact, the share of businesses that think it is a good time to invest has reached its highest level on record.

■ In the last four months, 91,000 jobs have been created. Nine out of 10 of these jobs are full-time. Private sector forecasters expect overall economic growth this year to be above 3 per cent and employment to increase by 300,000 to 350,000 jobs.

Table 1

*Summary statement of transactions:
fiscal outlook with budget measures ¹*

	1994-95	1995-96	1996-97	1997-98	1998-99
	(billions of dollars)				
Budgetary revenues	123.3	130.3	135.5	137.8	144.0
Program spending	118.7	112.0	109.0	105.8	103.5
Operating balance	4.6	18.3	26.5	32.0	40.5
Public debt charges	42.0	46.9	45.5	46.0	46.5
Underlying deficit	-37.5	-28.6	-19.0	-14.0	-6.0
Contingency Reserve				3.0	3.0
Deficit	-37.5	-28.6	-19.0	-17.0	-9.0
Net public debt	545.7	574.3	593.3	610.3	619.3
Non-budgetary transactions	11.6	11.4	13.0	11.0	10.0
Financial requirements/source	-25.8	-17.2	-6.0	-6.0	1.0
Per cent of GDP					
Budgetary revenues	16.5	16.8	17.0	16.5	16.6
Program spending	15.9	14.4	13.7	12.7	11.9
Operating balance	0.6	2.4	3.3	3.8	4.7
Public debt charges	5.6	6.0	5.7	5.5	5.3
Deficit	-5.0	-3.7	-2.4	-2.0	-1.0
Financial requirements	-3.5	-2.2	-0.8	-0.7	0.1
Net public debt	73.0	74.0	74.4	73.1	71.2

¹ A positive number indicates a source of funds, a negative number indicates a financial requirement.

Investing in Immediate Jobs and Growth

“The second element of our plan has been to take action in areas that have an immediate impact on growth and jobs ... thereby serving as a bridge until the full impact of our efforts to get interest rates down and restore confidence takes hold.”

Economic conditions favourable to healthy private sector growth are in place, but low interest rates have only begun to translate into stronger economic growth and job creation, leaving too many Canadians unemployed. To help bridge the gap to stronger growth, the government is continuing to help the private sector create jobs in the short term through programs that will also have lasting benefits.

■ **Canada Infrastructure Works Program:** \$425 million in new federal money for a total of \$600 million which, together with provincial and municipal contributions, will support \$1.8 billion of infrastructure projects in 1997-98.

■ **Residential Rehabilitation Assistance Program:** \$50 million in 1997-98 to support home renovations for low-income Canadians, including assistance to seniors and persons living in inadequate housing in remote communities and on Indian reserves, and for shelters for victims of family violence.

■ **Employment insurance premium reductions and the New Hires Program:** lower EI premiums and a New Hires Program that will virtually eliminate EI premiums for additional employees hired this year by almost 900,000 eligible small businesses.

- **Youth Employment Strategy:** a \$255 million Youth Employment Strategy, based on funds provided in the 1996 budget, to support 120,000 summer career placements over the next two years and to create over 19,000 new internship programs in partnership with the private, volunteer and government sectors.
- **Canadian Tourism Commission:** \$15 million a year over three years to promote Canada in foreign markets.
- **Business Development Bank:** a \$50 million equity injection to help finance private sector tourism infrastructure.
- **Actions to support jobs and growth in rural Canada:** a \$50 million equity injection for the Farm Credit Corporation, and \$10 million a year over three years for the Community Access Program to increase significantly the number of communities that have access to the information highway – 5,000 communities in all.
- **Reducing the regulatory burden:** by allowing small businesses with perfect compliance records to file payroll deductions on a quarterly rather than monthly basis, potentially benefiting up to 650,000 small businesses.
- **Proposed actions to support sustainable development:** extending income tax deductions for contributions to environmental trusts, encouraging donations of easements and covenants, and investing \$20 million a year over three years to promote energy efficiency and renewable energy investments in new and existing commercial buildings.

Investing in Long-Term Job Creation and Growth

“Canadians know that a better education equals better jobs. This is true for our young people who are in school. It is also true for those already in the workforce, whose continued employment is increasingly dependent on lifelong learning.

... the research facilities at our universities, colleges and hospitals are critical; they are the linchpin for a world-class education ... part of the root system of our economic prospects for the future.”

Investing in Higher Education and Skills

The 1997 budget proposes to enrich federal assistance for higher education and skills enhancement by \$137 million in 1998-99, growing to \$202 million in 1999-2000 and, ultimately, to about \$275 million annually when the effect of the measures matures.

Increasing tax assistance to students

- **Education credit:** The budget doubles the post-secondary education credit over two years.
- **Tuition credit:** This credit will now cover not only tuition fees, but also additional mandatory fees imposed by post-secondary institutions for educational purposes.

■ **Carry-forward of unused portions of credits:** Some students or their parents cannot take advantage of the tuition and education credits because they do not have sufficient income in a particular year to use them. Students – including workers who are returning to school – will now be able to carry forward the credits to be applied against future income.

As a result of measures in the 1996 and 1997 budgets, the combined federal and provincial tax assistance for a typical student will rise from \$900 to over \$1,200 per year – an increase of one-third.

Helping students repay their loans

■ **Canada Student Loans Program:** The deferral period for students unable to meet their loan repayment obligations will be extended from 18 to 30 months with the federal government paying the interest the student would otherwise have to pay. Combined with the initial six months after graduation when no payments are required, this means students will have up to three years of help in managing their loans.

■ **Tying loan repayment to income:** The federal government is ready to pursue with interested provinces, lenders and other groups a new additional repayment option under the Canada Student Loans Program to tie the loan repayment schedule directly to an individual's income to achieve a more manageable debt.

Helping parents save for their children's education

■ **Registered education savings plans (RESPs):** The annual contribution limit will be doubled to \$4,000. Parents will also be allowed to transfer unused RESP income into their registered retirement savings plan (RRSP) – provided they have room – if their children do not pursue higher education.

(A pamphlet is available providing more detailed information on the budget measures relating to assistance for post-secondary education.)

Helping Canadians enhance their skills

■ **Support for literacy:** The budget increases the government's support for literacy by 30 per cent. This complements the government's decision last fall to provide a full rebate of the goods and services tax on books to educational institutions, public libraries, municipalities and qualifying charities and non-profit organizations which promote literacy.

Investing in Innovation

Just as broader and better access to higher learning is essential for students and those already in the workforce, so too must they be provided with the facilities needed to acquire that education.

■ **Canada Foundation for Innovation:** The proposed Foundation will be established to provide financial support for modernizing research facilities and equipment at Canadian post-secondary educational institutions and research hospitals in the areas of science, engineering, health and the environment.

The Foundation will be an independent organization, at arm's length from government, with members drawn from the research community and the private sector. They, not the government, will be responsible for spending decisions. The Foundation will not support projects of government departments, agencies or Crown corporations.

Through an up-front investment by the federal government of \$800 million, the Foundation will be able to provide about \$180 million annually for research infrastructure over five years. Through partnerships with public research institutions, the business community, the voluntary sector, individuals and, to the extent they wish to participate, provincial governments, the Foundation has the potential to trigger about \$2 billion for research infrastructure across Canada.

■ **Other measures to support innovation:** The budget renews the government's commitment to the **Networks of Centres of Excellence** to help expand research partnerships across Canada, and to the **Industrial Research Assistance Program** to increase the innovative capabilities of small businesses.

(A booklet is available providing more detailed information on the Canada Foundation for Innovation.)

Investing in a Stronger Society

“... if our plan for a strong economy is to succeed, then we must have a strong society as well. The ultimate test of a nation is its will and capacity to support those who are most vulnerable, to sustain programs on which every one of its citizens depends.”

Sustaining and Improving Canada's Health Care System

In response to the recent report by the National Forum on Health, the budget provides \$300 million over three years to improve the delivery of better health services to Canadians:

- \$150 million over three years for a **Health Transition Fund** to help the provinces put in place projects – for example, new approaches to home care, drug coverage and other innovations – that will enable them to test ways to improve our health systems;
- \$50 million over three years for a **Canada Health Information System** – a co-ordinated national system of health information to ensure that health care providers and planners across the country have the right information at the right time, including the most up-to-date knowledge on the best treatments available; and
- \$100 million over three years to increase support for children's health under two programs: the **Community Action Program for Children**, which supports hundreds of community groups address-

ing the developmental needs of children at risk through parenting education, child development centres and family resource programs; and the **Canada Prenatal Nutrition Program** which helps ensure the birth of healthy babies.

(A pamphlet is available containing more detailed information on the health care initiatives announced in the budget.)

Towards a National Child Benefit System

Too many children are growing up without getting the start they need to become healthy, happy, educated and productive adults.

The federal, provincial and territorial governments have been examining ways to improve assistance to children in low-income families. The proposed approach is a **National Child Benefit System** under which the federal government would introduce an **enriched Canada Child Tax Benefit** while provinces and territories would redirect some of their spending into improved services and benefits for low-income working families.

The 1997 budget proposes a two-step enrichment of the current \$5.1 billion Child Tax Benefit to create a new \$6 billion Canada Child Tax Benefit by July 1998. This \$850 million annual increase includes \$600 million in new funds in addition to the \$250 million increase in the **Working Income Supplement** proposed in the 1996 budget.

■ **First step – July 1997:** The Working Income Supplement will be enriched by \$195 million (\$70 million more than proposed last year). Benefits will be provided for each child, instead of per family. The maximum Working Income Supplement will be \$605 to one-child families and \$1,010 to two-child families, increasing by \$330 for each additional child.

■ **Second step – July 1998:** The Working Income Supplement will be combined with an enriched Child Tax Benefit to form the Canada Child Tax Benefit. The maximum benefit for low-income families will be \$1,625 to one-child families, \$3,050 to two-child families, increasing by \$1,425 for each additional child.

Overall, more than 1.4 million Canadian families with 2.5 million children will see an increase in federal child benefit payments by July 1998:

- families with income under \$25,921 will receive higher federal benefits, while those with income over this amount will continue receiving benefits at their current levels; and

- families with income under \$20,029 will receive maximum federal benefits.

The federal government will continue working with provinces and territories to design the complementary changes that will help to reduce child poverty and barriers to work.

(A booklet and pamphlet are available providing more detailed information on the child benefit initiatives in the budget.)

Helping Canadians with Disabilities

The government is helping Canadians with disabilities to participate more fully in Canadian society. The 1997 budget proposes to build on previous actions and responds to the recommendations of the Federal Task Force on Disability Issues.

■ Additional tax assistance:

- the list of expenses eligible for the medical expense tax credit will be significantly broadened and the limit on part-time attendant care doubled to \$10,000;
- the \$5,000 limit on the deduction for attendant care expenses will be eliminated; and
- a new refundable tax credit will be introduced to cover high medical expenses for low-income working Canadians with disabilities.

■ **Opportunities Fund:** This Fund will provide \$30 million a year over three years to help Canadians with disabilities integrate into the economic life of their communities and increase their independence.

(A pamphlet is available providing more detailed information on the budget measures to assist Canadians with disabilities.)

Support for Charitable Giving

Following a thorough review of proposals for improving tax assistance and consultations with the charitable sector, the budget proposes measures to increase support for charitable giving.

■ **Tax assistance for donations:** The allowable amount of donations for which the charitable tax credit can be claimed will be raised to 75 per cent of income and be uniformly applied to all

charities. This will particularly help smaller charities such as food banks and shelters to solicit donations on the same basis as museums and universities that have Crown foundation status.

■ **Incentives for donations of publicly traded securities:** The budget proposes to reduce the income inclusion rate on capital gains arising from such donations from 75 to 37½ per cent. This will facilitate the transfer of capital to charities and put Canadian charities on an equal footing with those in the United States. After five years, this provision will be terminated if it has not been effective.

(A fact sheet is available providing more detailed information on the budget measures to encourage charitable donations.)

Ensuring a Sustainable System for Retirement Income

The government is taking actions to make the retirement income system secure for Canadians.

■ **Securing the Canada Pension Plan (CPP):** As announced recently, the federal government and the majority of provinces have agreed to a strong and balanced package of reforms that will preserve the plan by strengthening its financing, improving its investment practices and reducing costs. Important features of the CPP will be retained:

- all retired pensioners or anyone over 65 as of December 31, 1997 will not be affected. Anyone currently receiving CPP disability benefits, survivor benefits, or combined benefits will also not be affected;
- all benefits under the CPP will remain fully indexed to inflation; and
- the ages of retirement – early, normal or late – remain unchanged.

■ **The new Seniors Benefit:** Announced in the 1996 budget, it will consolidate the old age security and guaranteed income supplement into one benefit beginning in 2001. Under the new benefit:

- everyone 60 years of age or older on December 31, 1995 and their spouses will be guaranteed no less than current pension payments;
- low- and modest-income Canadians will be fully protected;
- payments will be completely tax free and fully indexed to inflation; and

- benefits will be delivered in a single monthly payment – with separate and equal cheques for each spouse.

■ **Private retirement saving:** The budget further strengthens private retirement saving by proposing a pension adjustment reversal. This will restore RRSP room for individuals who receive lower benefits from a pension plan because they have had several employers over their careers or have had to leave the workforce temporarily – for example, to have children.

Table 2

Investing in a stronger society

	1997-98	1998-99	1999-2000
	(millions of dollars)		
Sustaining and improving Canada's health care system			
Health Transition Fund/Canada Health Information System	50	75	75
Community Action Program for Children and Canada Prenatal Nutrition Program	33	33	33
Subtotal	83	108	108
Towards a National Child Benefit System			
Canada Child Tax Benefit	50 ¹	470 ¹	600
Helping Canadians with disabilities			
Broadening the medical expense tax credit/removing limit on attendant care deduction	5	30	30
Refundable medical expense supplement for earners	5	30	40
Opportunities Fund	30	30	30
Subtotal	40	90	100
Support for charitable giving			
Reduced inclusion rate on capital gains	20	90	90
Net income limit/CCA recapture changes	5	5	5
Increased resources for Revenue Canada	5	5	5
Subtotal	30	100	100
Total	203	768	908

¹ Assumes a July 1, 1998 start-up. If implemented earlier, total would be larger by up to \$150 million.

Taxation: Targeted Tax Measures

None of the government's four budgets – including this one – has increased personal income tax rates. Taxes have not been increased in either this budget or the last one.

- The budget proposes **selective tax cuts** for low-income families, charities, the disabled, students and workers pursuing higher education, and for parents saving for their children's future education.
- The government believes there will be a time to consider a broad-based tax cut, but only when it is affordable and can be sustained.

Table 3

Federal revenue impact of new tax measures

	1997-98	1998-99	1999-2000
	(millions of dollars)		
Personal income tax measures			
Enhance tax assistance to education and training			
Increase education credit	-5	-45	-80
Make ancillary fees eligible for the tuition credit	-5	-30	-30
Allow a carry-forward of unused tuition and education credits	—	-10	-25
Increase RESP annual limit to \$4,000 and allow transfers to RRSPs or to contributor	-10	-25	-40
Helping small businesses			
Quarterly remittance of withholdings	-180	-5	-5
Enhancing effectiveness of LSVCCs	—	—	—
Improving the retirement income system			
PAR: restoring lost RRSP room	—	—	—
Averaging of CPP/QPP lump sum payments	small	small	small
Towards a National Child Benefit System			
Enrichment and restructuring of the Child Tax Benefit	-50	-470	-600
Measures to assist Canadians with disabilities			
Broadening the medical expense tax credit; removing limit on attendant care deduction	-5	-30	-30
Refundable medical expense supplement for earners	-5	-30	-40
Measures to enhance tax assistance to charitable giving			
Reduce the inclusion rate on capital gains arising from the donation of publicly listed securities from 75% to 37.5%	-20	-90	-90
75% net income limit for all donations; include 25% of CCA recapture in the net income limit	—	-5	-5
New method of valuation for easements of ecologically sensitive lands	—	—	—
Increased resources for Revenue Canada	-5	-5	-5
Subtotal	-285	-745	-950
Business taxation measures			
Review of transfer pricing rules		prevents revenue losses	
Restricting investment tax credit claims		prevents revenue losses	
Extension of temporary tax on large deposit-taking institutions	25	45	—
Environmental initiatives	—	-25	-25
Sales and excise tax measures			
Clarify measurement of fuel volumes	—	—	—
Total	-260	-725	-975

Conclusion

“If we have been forced to spend much of our energy addressing financial problems inherited from the past, now, with those problems on the way to resolution, we can focus on the promise of the future – on the great national challenges that lie ahead.

Let us never come to believe that there is such a thing as a tolerable level of child poverty or that a growing gap between the rich and the poor is ever acceptable. Let us never forget the debt we owe to our seniors, and let us leave no stone unturned in the quest for jobs.

Let us recognize that Canada’s greatest natural resources do not lie buried deep in the ground, but in the skills and talents of those who walk upon it.

Let us do what is necessary to ensure that Canada not only meets the standards of innovation that the world has set for today, but that we set the standards that others must meet tomorrow.

*And let us speak loudly and clearly to those who believe that we cannot afford medicare anymore. Let us say that if there was ever a time in our history when we cannot afford **not** to have medicare, it is now – and let us go on to strengthen it, for all time.*

There is literally nothing standing in our way. We have it in ourselves to do all of this and even more.”

The Honourable Paul Martin, P.C., M.P.
Minister of Finance

Budget-Related Documents

Booklets

Budget Speech

Budget in Brief

Working Together Towards a National Child Benefit System

The Government's Jobs Strategy

Canada Foundation for Innovation

Pamphlets

Investing in Post-Secondary Education

Sustaining and Improving Health Care

Helping Canadians With Disabilities

Towards a National Child Benefit System

Fact sheets

The 1997 Budget: Overview

Restoring Confidence in the Country's Finances:
The Economic Situation

Restoring Confidence in the Country's Finances:
Economic Assumptions

Restoring Confidence in the Country's Finances:
The Fiscal Outlook

Investing in Long-Term Jobs and Growth:
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Investing in Long-Term Jobs and Growth:
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Investing in a Stronger Society:
Sustaining and Improving Canada's Health Care System

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Towards a National Child Benefit System

Investing in a Stronger Society:
Helping Canadians with Disabilities

Investing in a Stronger Society:
Support for Charitable Giving

Budget Plan (a technical document) available at a cost
of \$26.75 including GST.

Information on the budget and other initiatives of the
Department of Finance are also available
on the Internet at: <http://www.fin.gc.ca/>

